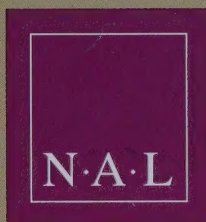


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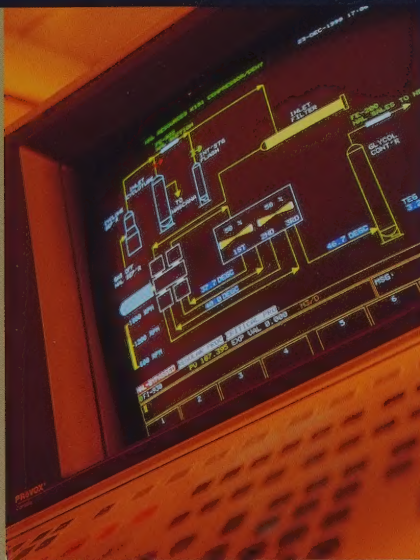
N A L O I L & G A S T R U S T

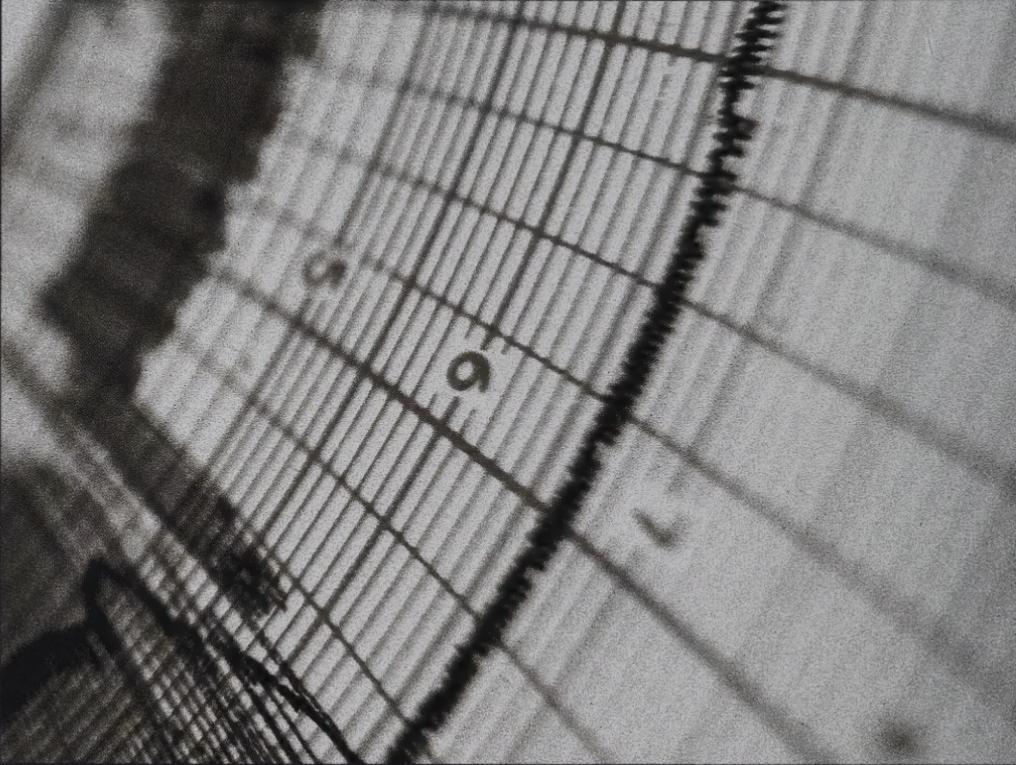


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University of Alberta
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Edmonton, Alberta T6G 2R6



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NAL OIL & GAS TRUST

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NAL Oil & Gas Trust (the "Trust") is an open-end investment trust created to acquire a royalty on high quality, producing oil and natural gas properties from NAL Energy Inc. ("NAL"). Royalty income received by the Trust is distributed to Unitholders on a monthly basis.

The Trust and NAL are managed by NAL Resources Management Limited (the "Manager"), which was formed in 1990 to manage oil and natural gas investments for major Canadian financial institutions. Since inception, the Manager has invested in excess of half a billion dollars in the oil and natural gas industry on behalf of its clients.

The Trust qualifies under the Canadian Income Tax Act as a mutual fund trust. Units of the Trust qualify as investments for Registered Retirement Savings Plans, Deferred Profit Sharing Plans and Registered Retirement Income Funds.

Headquartered in Calgary, Alberta, the Trust trades on the Toronto Stock Exchange under the symbol NAE.UN.

HIGHLIGHTS

FINANCIAL (\$000s except per unit and boe data)

	1999	1998	1997
Gross revenue	\$ 50,448	\$ 40,366	\$ 44,784
Distributable income	21,456	18,195	20,468
Total assets	178,534	168,125	173,579
Long-term debt	59,100	52,900	37,900
Unitholders' equity	110,216	109,509	129,079
Costs per boe:			
Operating	\$ 4.91	\$ 4.72	\$ 5.47
General and administrative	1.05	0.91	1.18
Management fees	0.46	0.33	0.46
Distributable income per unit	\$ 1.25	\$ 1.12	\$ 1.42
Cash distributions per unit	\$ 1.28	\$ 1.04	\$ 1.38

OPERATING

Daily production:			
Oil (bbl)	3,493	3,621	2,961
Natural gas (mcf)	13,997	16,712	16,820
Natural gas liquids (bbl)	249	235	226
Oil equivalent (boe)	5,142	5,527	4,869
Average price:			
Oil (per bbl)	\$ 26.42	\$ 19.36	\$ 26.98
Natural gas (per mcf):			
Ontario	3.93	3.18	3.37
Alberta	2.47	1.78	1.75
Total company	3.03	2.24	2.29
Natural gas liquids (per bbl)	16.20	11.97	21.37
Oil equivalent (per boe)	26.88	20.01	25.20

- Cash distributions represented an 18% cash-on-cash yield based on year-end Trust Unit price
- Year-end Unit price increased 29% over prior year to \$7.10
- Acquisitions of \$18.6 million added one new operated property and increased ownership at existing properties, at a cost of \$5.53 per established boe
- Exit rate of production 5,700 boepd, 4% higher than prior year
- Issued 2,875,000 Trust Units for gross proceeds of \$19.6 million



Donald P. Driscoll
President & Chief Executive Officer

NAL OIL & GAS TRUST

Letter to Unitholders

Dear Unitholders:

1999 was a prosperous year for NAL. There was a resurgence of oil prices, several property purchases were completed and solid market support was received for the new equity issue. Distributions to Unitholders were above forecast, primarily because of the rise in commodity prices.

In my 1998 Letter to Unitholders, I stated that predicting oil prices in 1999 would be difficult and that NAL would conduct its business in expectation of a continuing low price environment. The West Texas Intermediate ("WTI") price for a barrel of oil opened the year at US\$12.50 and continued a downward slide. In mid-March, world oil prices began to improve steadily and recovered much faster than expected. The year closed with a WTI price of US\$25.60, averaging US\$19.24 for the year. Strong natural gas prices coupled with improved oil prices contributed to increased revenues for NAL, which were reflected in the cash distributions to our Unitholders.

NAL maintained its monthly distribution rate at \$0.07 per unit for the first half of the year. As commodity prices rose, NAL accumulated undistributed cash for its Unitholders. Beginning in July, monthly distributions were steadily increased to include a portion of the undistributed balance and to reflect the increased revenues. In total, cash distributions of \$1.28 were made to Unitholders for the year.

Our acquisition strategy is focused on increasing working interests in core areas and acquiring new areas where we have technical expertise. In 1999, we completed \$18 million of property purchases. We increased interests in southeast Saskatchewan and added Sylvan Lake to our Alberta holdings. Through commitment to our acquisition strategy, we have controlled growth and ensured that acquired properties add long-term value to our Unitholders.

The 1999 capital program, which began late in the third quarter, totalled \$7 million, bringing the capital expenditure budget to \$25 million. As operator of many of NAL's core properties, we can control the timing of development. The development program was delayed until oil prices improved, resulting in a decline to the year's average production volumes. Daily production averaged 5,150 boepd; however, the exit rate of production was 5,700 boepd. Production volumes for 2000 are expected to average 5,600 boepd excluding incremental production from potential future acquisitions.

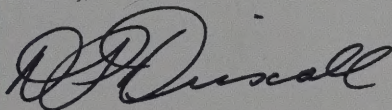
Relative to its peers, NAL earns a premium netback. For 1999, NAL's operating netback was \$16.66 per boe. NAL's netback reflects the overall low operating cost structure of its properties and its high oil and gas prices.

NAL issued 2,875,000 new units in September 1999. Proceeds of the offering were used to fund the acquisitions and the 1999 development program. NAL's year-end unit price provided a 6% price appreciation to holders of the new units even after \$0.30 per unit in cash distributions.

Looking forward, I expect oil prices for 2000 to average in the US\$23.00 range. I anticipate natural gas prices will increase to \$3.00 by year end. We will continue to manage NAL conservatively despite the very high prices at the time of writing. The monthly distribution rate has been increased to \$0.10 per month beginning with the January 15 distribution. We will direct additional cash flow resulting from higher commodity prices towards a combination of discretionary debt reduction and special quarterly distributions. NAL will remain focused on increasing production through development and acquisitions.

I thank our Unitholders for their continued support throughout 1999. With our high quality asset base and experienced management team, NAL is well positioned for the new millennium and will continue to deliver solid returns to its Unitholders.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Driscoll", with a stylized, cursive script.

Donald P. Driscoll
President and CEO

February 23, 2000



NAL OIL & GAS TRUST

Review of Operations



Review of Operations

In 1999, NAL spent over \$18 million on acquisitions. NAL purchased additional interests in its existing properties in southeast Saskatchewan and added one new area, Sylvan Lake, Alberta, to its property portfolio. The Manager is the operator of Sylvan Lake which is consistent with NAL's preference for operated properties. The 1999 acquisitions not only contributed immediate incremental oil and gas production to NAL but also provided future development potential. In addition to the working interests acquired during the year, NAL purchased a gross overriding royalty interest at Sturgeon Lake, Alberta.

NAL participated in the drilling of 11 oil wells and five natural gas wells during the year with an overall success rate of 88%. Low crude oil prices in the early part of the year, combined with changes of operatorship at Nipisi and House Mountain, resulted in reduced drilling activity at those non-operated properties. The Manager, as operator of many of NAL's core properties, also elected to delay the start of its drilling program until oil prices improved. NAL's 1999 drilling program started during the latter part of the third quarter and was completed by year end.

Operating costs averaged \$4.91 per boe, which is among the lowest for the oil and gas royalty trust sector. NAL's low operating cost structure results from the combination of its properties and the Manager's experience as an operator. The premium prices received on NAL's high-quality light oil production and its Lake Erie natural gas production, coupled with low operating costs, provide NAL with a very competitive operating netback. The operating netback was \$16.66 per boe, a 44% increase over the prior year.

NAL exited 1999 with a daily production level of 5,700 boe, a 4% increase over the prior year.



HIGHLIGHTS

- **Gross overriding royalty acquired**

STURGEON LAKE

- **Change of operator**
- **Four oil wells drilled**
- **Plan to drill ten oil wells in 2000**

HOUSE MOUNTAIN UNIT NO. 1

- **Change of operator**
- **Development for 2000 being evaluated**

NIPISI GILWOOD UNIT

- **Plan to drill four natural gas wells in 2000**

SURMONT/HANGINGSTONE

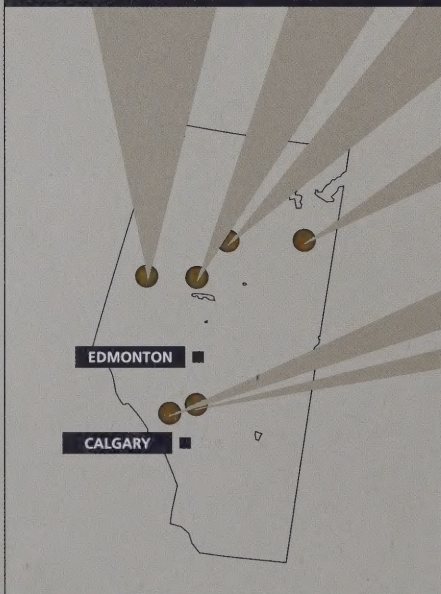
- **New core area**
- **Operated by Manager**
- **Plan to drill two horizontal wells in 2000**

SYLVAN LAKE

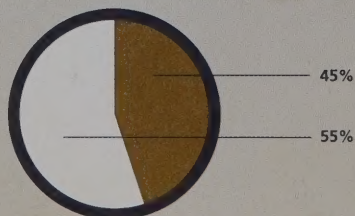
- **Plan to drill two wells in 2000**

JOFFRE D-2 & D-3 UNITS

ALBERTA



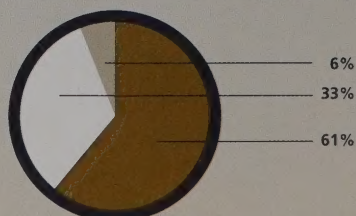
ALBERTA SHARE OF TOTAL PRODUCTION



Legend

Alberta
Other Provinces

ALBERTA PRODUCTION BY PRODUCT



Legend

Oil
Natural Gas
NGL

NAL has five core areas within Alberta – Sylvan Lake, House Mountain Unit No.1, Surmont/Hangingstone, Nipisi Gilwood Unit and Joffre D-2 and D-3 Units. Alberta offers more complexity from an operational standpoint resulting in an average operating cost of \$6.38 per boe. NAL's operating netback from Alberta was \$15.51 per boe.

Approximately 45% of NAL's total production comes from its Alberta operations.

SYLVAN LAKE

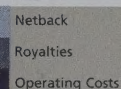
NAL's working interest: 4.88%

Operator: NAL Resources Limited

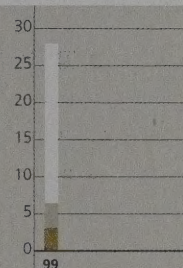
Net reserves: 796 mboe

Sylvan Lake is a new core area that was acquired in November 1999. Sylvan Lake produces both oil and natural gas and is operated by the Manager. It is located in central Alberta, close to the Joffre Units. Sylvan Lake exited the year with 240 boepd of production, net. NAL plans to drill two horizontal wells in 2000.

Legend



Netback (\$/boe)



HOUSE MOUNTAIN UNIT NO. 1

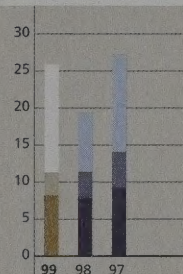
NAL's working interest: 7.05%

Operator: Apache Canada Ltd.

Net reserves: 1,526 mboe

House Mountain is a non-operated oil-producing property located northwest of Edmonton, Alberta. During 1999, the former operator decided to divest of House Mountain and in November 1999, Apache Canada Ltd. acquired the interests and became operator. The change of operatorship delayed development during the year, but four wells were drilled in the fourth quarter which partially offset natural declines. The net exit rate of production was 210 boepd, down approximately 19% from the prior year exit rate. The new operator is planning to drill ten horizontal wells, over the 1999/2000 winter drilling season, which should increase the daily production level.

Netback (\$/boe)



SURMONT/HANGINGSTONE

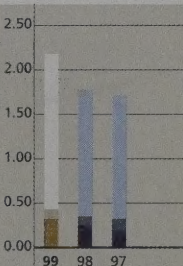
NAL's working interest: 14.95%

Operator: Northstar Energy Corporation

Net reserves: 7,135 mmcf

Surmont/Hangingstone is a non-operated natural gas-producing property located northeast of Edmonton, Alberta. The Alberta Energy & Utilities Board ("AEUB") has restricted further development in certain formations within Surmont/Hangingstone. At issue is whether production of natural gas from these formations will significantly impact future oil recovery from the oilsands. A lengthy hearing was held during 1999 and the gas producers are awaiting a decision. As a result of the restriction on further development, the net exit rate of production was 5.1 mmcf/d, down 18% over the prior year exit rate. Four additional wells are planned for the winter drilling season within the Clearwater formation, which is not restricted by the AEUB.

Netback (\$/mcf)



NIPISI GILWOOD UNIT

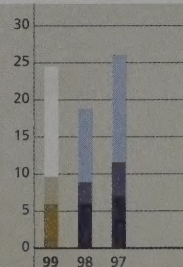
NAL's working interest: 8.30%

Operator: Canadian Natural Resources Ltd.

Net reserves: 1,668 mboe

The Nipisi Gilwood Unit is a non-operated oil-producing property located in north central Alberta. During 1999, the former operator decided to divest of its interests in Nipisi. In October 1999, Canadian Natural Resources Ltd. acquired the working interests in the Unit and became the new operator. The change in operator deferred development plans for 1999, and infill drilling did not offset natural production declines. The net exit rate of production for Nipisi was 635 boepd, down 18% over the prior year exit rate. The new operator is evaluating further development in the area.

Netback (\$/boe)



JOFFRE D-2 & D-3 UNITS

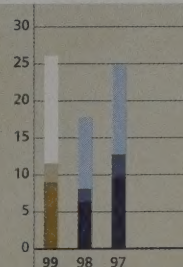
NAL's working interest: D-2 45.12% & D-3 43.89%

Operator: NAL Resources Limited

Net reserves: 4,352 mboe

The Manager operates the Joffre D-2 and D-3 Units that produce light oil with a sour gas component. The adjacent Units are located close to Red Deer in central Alberta. Work was performed in 1999 to optimize production at both locations. New compression was added to inject additional natural gas and maintain reservoir pressure in the D-3 Unit. For the D-2 Unit, technical evaluation of additional drilling opportunities is currently underway. The net exit rate of production for the Joffre Units was 625 boepd, down 31% over the prior year exit rate. Two wells are planned for 2000.

Netback (\$/boe)





HIGHLIGHTS

- Added to working interests
- Two horizontal wells drilled
- 4% daily production increase

ALIDA UNIT

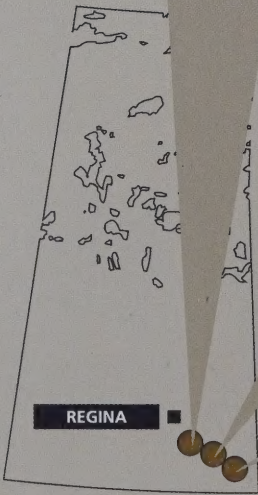
- Additional 9.94% working interest acquired
- Two horizontal wells drilled
- 141% daily production increase

NOTTINGHAM UNIT

- Acquired interests in nine wells
- Two horizontal wells drilled
- 6% daily production increase

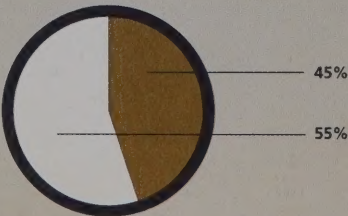
ROSEBANK

SASKATCHEWAN



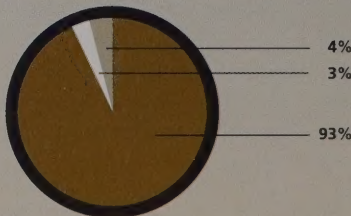
REGINA

SASKATCHEWAN SHARE OF TOTAL PRODUCTION



Legend
 ■ Saskatchewan
 ■ Other Provinces

SASKATCHEWAN PRODUCTION BY PRODUCT



Legend
 ■ Oil
 ■ Natural Gas
 ■ NGL

In Control of Growth

Southeast Saskatchewan is NAL's largest operated area. It is comprised of three oil-producing properties – Nottingham, Alida and Rosebank. NAL completed \$11.7 million of acquisitions in southeast Saskatchewan during 1999, predominantly at Nottingham. The properties are adjacent to each other, providing for greater operating efficiencies as they are very similar and only one field office is required. The 1999 average operating cost for the Saskatchewan operations was \$3.12 per boe and the operating netback was \$15.14 per boe.

The Manager has been active in southeast Saskatchewan since 1989 when it first acquired a sizable interest in Nottingham on behalf of its clients. The Manager added interests at Alida in 1990 and assumed operatorship of these two oil units. Both Nottingham and Alida have enjoyed tremendous success with the Manager as operator. Over the years, production was increased dramatically through the introduction of horizontal drilling technology. NAL acquired its interests in 1996 and has participated in the continued development of both properties. Rosebank was acquired in late 1998 and provides further horizontal drilling opportunities.

Approximately 45% of NAL's total production comes from the Saskatchewan operations.

NOTTINGHAM UNIT

NAL'S working interest: 34.07%

Operator: NAL Resources Limited

Net reserves: 2,832 mboe

Through three separate acquisitions, NAL added an additional 9.94% working interest in this core property in 1999. As part of the development program, two horizontal wells were drilled during the fourth quarter. The net exit rate of production was 820 boepd, a 141% increase over the prior year. Looking ahead to 2000, NAL expects to drill three wells.

ALIDA UNIT

NAL'S working interest: 53.19%

Operator: NAL Resources Limited

Net reserves: 4,576 mboe

NAL increased its ownership in Alida through the acquisition of an additional 0.03% working interest. On the development side, two horizontal wells were drilled during the year. One was a new horizontal well and the second was a re-entry well. The net exit rate of production was 1,315 boepd, a 4% increase over the prior year. NAL expects to drill three wells in 2000.

ROSEBANK

NAL'S working interest: 40.00%

Operator: NAL Resources Limited

Net reserves: 1,792 mboe

During the year, NAL increased its share of production at Rosebank when it acquired varying interests in nine additional producing wells. The 1999 development program added two more horizontal wells. The net exit production rate for Rosebank was 550 boepd, a 6% increase over the prior year. In 2000, NAL plans to drill one well.

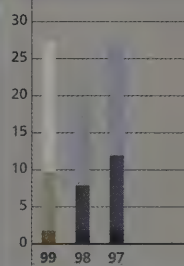
Legend

Netback

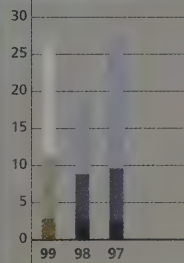
Royalties

Operating Costs

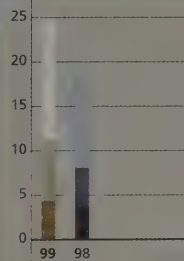
Netback (\$/boe)



Netback (\$/boe)



Netback (\$/boe)





HIGHLIGHTS

- **Two onshore horizontal wells drilled**
- **New pipeline tied in five wells**
- **Booster compressor added to offshore**
- **Plan to drill 20 natural gas wells in 2000**

LAKE ERIE



LAKE ERIE

NAL's working interest: 20.13%

Operator: Talisman Energy Inc.

Net reserves: 26,995 mmcf



Development of Lake Erie continued in 1999. NAL participated in the drilling of two onshore horizontal wells through a farm-in agreement with the operator. One well was tied in during the fourth quarter. Additional onshore wells are planned for 2000.

Offshore development progressed with the construction of a pipeline to tie-in five previously shut-in sour gas wells. A number of workovers and re-completions were performed on offshore wells, increasing the gas production and offsetting natural declines. Up to 20 offshore wells are planned for the summer of 2000.

An offshore booster compressor station was leased during the year to further increase gas deliverability. The booster compressor can only be used when the lake is ice free and accordingly the compression facility was removed for the winter. Lake Erie gas production averaged 5.4 mmcf/d in 1999. Due to the removal of the booster compressor just prior to year end, the net exit rate of production was down approximately 5% over the prior year end at 5.3 mmcf/d.

The proximity to the southern Ontario market results in a significantly reduced transportation cost and a much higher netback for NAL. The operating netback from Lake Erie was \$28.04 per boe. Lake Erie accounts for 10% of NAL's total production and 38% of natural gas production.

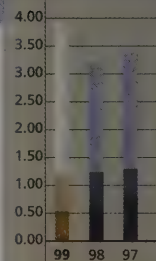
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Netback

Royalties

Operating Costs

Netback (\$/mcf)



ONTARIO SHARE OF TOTAL PRODUCTION

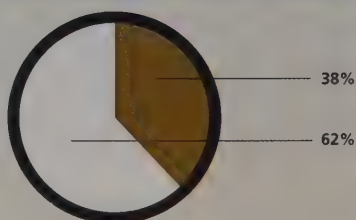


Legend

Ontario

Other Provinces

ONTARIO SHARE OF NATURAL GAS PRODUCTION



Legend

Ontario

Other Provinces

RECONCILIATION OF RESERVES

RECONCILIATION OF RESERVES

	PROVEN			PROBABLE			ESTABLISHED*		
	Oil mmbbl	Gas mmcf	NGL mmbbl	Oil mmbbl	Gas mmcf	NGL mmbbl	Oil mmbbl	Gas mmcf	NGL mmbbl
January 1, 1999	11,438	47,414	1,765	5,346	17,041	143	14,112	55,935	1,837
Production	(1,377)	(5,020)	(75)	—	—	—	(1,377)	(5,020)	(75)
Acquisitions, divestitures	1,671	5,479	494	852	2,079	226	2,097	6,519	607
Development, revisions	(357)	(423)	42	(96)	(3,694)	38	(405)	(2,270)	61
January 1, 2000	11,375	47,450	2,226	6,102	15,426	407	14,427	55,164	2,430

NET PRESENT VALUE (000s)

Discount Rate	0%	10%	15%	20%
Proven producing	\$ 228,518	\$ 142,265	\$ 120,339	\$ 104,841
Proven non-producing	34,266	19,536	15,369	12,330
Total proven	\$ 262,784	\$ 161,801	\$ 135,708	\$ 117,171
Probable (unrisked)	\$ 125,203	\$ 48,074	\$ 34,150	\$ 25,626
Established reserves*	\$ 325,386	\$ 185,838	\$ 152,783	\$ 129,984

Net present values are reported as evaluated by McDaniel & Associates effective January 1, 2000. The values include ARC and are reported before taxes.

NEAR TERM PRICING ASSUMPTIONS

Year	OIL		GAS	
	WTI US\$/bbl	EDMONTON Cdn\$/bbl	ALBERTA AVG. Cdn\$/mcf	LAKE ERIE Cdn\$/mcf
2000	21.00	29.40	2.80	4.04
2001	20.00	27.10	2.70	3.97
2002	20.50	27.40	2.65	3.94
2003	21.00	28.10	2.65	3.96
2004	21.40	28.60	2.65	4.01

Exchange rate \$US/\$Cdn 2000 = 0.69, 2001 = 0.71, 2002 = 0.72. US oil price based on West Texas Intermediate at Cushing, Oklahoma.
Canadian oil price based on 40 degree API, 0.5% sulphur crude.

NET ASSET VALUE (000s except per unit amount)

	10%	15%	20%
Established reserves*	\$ 185,838	\$ 152,783	\$ 129,984
Working capital	6,286	6,286	6,286
Reclamation reserve	1,405	1,405	1,405
Long-term debt	(59,100)	(59,100)	(59,100)
Net asset value	\$ 134,429	\$ 101,374	\$ 78,575
Per unit	\$ 7.04	\$ 5.31	\$ 4.12

*Proven plus 50% probable.

NAL OIL & GAS TRUST

Management's Discussion and Analysis



Management's Discussion and Analysis

Management's Discussion and Analysis should be read in conjunction with the Combined Financial Statements included on pages 22 to 31 of this Annual Report.

RESULTS OF OPERATIONS

REVENUE (000s)

Area	1999	1998
Alida Unit	\$11,675	\$ 9,079
Lake Erie	7,756	6,343
Joffre D-2 & D-3 Units	6,707	6,823
Nipisi Gilwood Unit	6,068	5,430
Rosebank	4,906	938
Surmont/Hangingstone	4,319	4,279
Nottingham Unit	3,935	2,439
House Mountain Unit No. 1	2,319	1,838
Other	2,763	3,197
	\$ 50,448	\$ 40,366

Gross revenue from oil, natural gas and natural gas liquids (NGL) sales totalled \$50.4 million for 1999, which was 25% higher than the 1998 amount of \$40.4 million. Significantly higher oil and natural gas prices in 1999 resulted in the increase to gross revenues.

VOLUMES (average boepd)

Area	1999	1998
Alida Unit	1,197	1,255
Joffre D-2 & D-3 Units	704	1,004
Nipisi Gilwood Unit	678	793
Rosebank	547	545
Surmont/Hangingstone	543	663
Lake Erie	537	547
Nottingham Unit	393	352
House Mountain Unit No. 1	246	260
Other	297	108
	5,142	5,527

Total 1999 production volume on a boe basis was 1,876,800 compared to 1998 production volume of 2,017,400. The 7% decrease in production over 1998 was mainly attributable to three properties – Joffre, Surmont/Hangingstone, and Nipisi. Joffre experienced higher production declines than forecast for 1999. The Manager is currently conducting a technical evaluation of the reservoir in an effort to arrest declines and enhance production in this area. At Surmont/Hangingstone, the Alberta Energy and Utilities Board has restricted further development pending a decision as to whether future oil recovery from the oilsands will be significantly impacted. A hearing was held in 1999 on this issue and a decision is pending. Nipisi underwent a change of operator during the year and the drilling program was deferred which resulted in natural declines not being offset by infill drilling. The increased volumes resulting from acquisitions and development offset decline at these areas, and NAL ended the year with an exit rate of production 4% higher than the prior year at 5,700 boepd.

AVERAGE PRICES – CDN. \$

	1999	1998
Oil (bbl)	\$ 26.42	\$ 19.36
Natural gas (mcf):		
Total	\$ 3.03	\$ 2.24
Lake Erie	\$ 3.93	\$ 3.18
Alberta	\$ 2.47	\$ 1.78
Natural gas liquids (bbl)	\$ 16.20	\$ 11.97
Total (boe)	\$ 26.88	\$ 20.01

Oil, natural gas and natural gas liquids prices received by NAL were all higher than the prior year. Oil prices were 36% higher as a result of the resurgence in world oil prices. The West Texas Intermediate price for a barrel of oil, which serves as a benchmark for western Canadian crude prices, averaged US \$19.24 in 1999 compared to US \$14.42 in 1998. Natural gas prices remained strong and were 35% higher than the prior year.

Average natural gas prices vary from province to province due to the difference in transportation costs. The price received for natural gas from Lake Erie is significantly higher than the price received for Alberta natural gas because of Lake Erie's proximity to the southern Ontario market. In 1998, improvement in natural gas spot prices had minimal impact on NAL as most of the Alberta natural gas production was tied to fixed price contracts. In 1999, a much smaller portion of NAL's Alberta natural gas production was subject to fixed price contracts. This allowed NAL to participate in higher spot market prices which averaged \$2.92 per mcf in 1999, 41% higher than the 1998 price of \$2.07 per mcf.

Lake Erie's natural gas price is set by contract. Under the terms of the contract, a price differential is set each year based on the New York Mercantile Exchange and Canadian Empress prices. The 1999 differential was considerably lower than 1998 and, coupled with stronger natural gas prices, resulted in the 24% increase to the average price.

The Manager is authorized to enter into hedging agreements for the purpose of securing a fixed price for a portion of NAL's oil and natural gas production. NAL entered into two put option agreements that placed a floor price on approximately 20% of natural gas production. Both agreements set the floor price at \$2.43 per mcf. The first agreement was for the period January 1 to March 31, 1999 while the second agreement was for the period May 1 to October 31, 1999. NAL also entered into a fixed price swap contract that hedged 850 barrels of oil per day at US \$18.25 per barrel for the period July 31 to December 31, 1999. There were no outstanding hedge contracts in place at December 31, 1999.

OTHER INCOME

Other income includes fees from third parties for processing, transporting, gathering or treating their oil and natural gas, royalty income and interest income. Other income for 1999 totalled \$314,000, a 56% decrease over the 1998 total of \$716,000. In 1999, there was a significant decrease in the sale of injection gas.

ALBERTA ROYALTY CREDIT

The 1999 Alberta Royalty Credit ("ARC") was \$852,000 compared to \$996,000 for 1998. The Joffre D-3 Unit and Surmont/Hangingstone area have a large number of oil and natural gas wells that qualify for ARC. These wells reported lower production volumes and revenues for the year, which resulted in lower ARC eligibility.

ROYALTIES

Crown, freehold and gross overriding royalties totalled \$10.8 million for 1999 compared to \$8.4 million for 1998. The increase in royalties was due to the increase in gross revenues. Total royalties as a percentage of gross revenue were unchanged from the prior year at 21%.

OPERATING EXPENSES (000s)

	1999		1998	
	Total	per boe	Total	per boe
Total Company	\$ 9,215	\$ 4.91	\$ 9,524	\$ 4.72
Area				
Joffre D-2 & D-3 Units	\$ 2,310	\$ 9.00	\$ 2,314	\$ 6.32
Nipisi Gilwood Unit	1,471	5.94	1,747	6.03
Alida Unit	1,223	2.80	1,250	2.73
Lake Erie	1,038	5.29	1,253	6.28
Rosebank	857	4.30	182	3.63
House Mountain Unit No. 1	737	8.19	743	7.83
Surmont/Hangingstone	644	3.25	600	2.48
Nottingham Unit	248	1.72	223	1.74

OPERATING EXPENSES

Total operating expenses were \$9.2 million compared to \$9.5 million in 1998. On a boe basis, total operating expenses for 1999 were \$4.91, a 4% increase over the 1998 amount of \$4.72. Operating costs, on a boe basis, decreased at Nottingham, Lake Erie and Nipisi. Both Lake Erie and Nipisi benefited from increased operating efficiencies, which reduced their costs on a boe basis despite lower production volumes than the prior year. However, these decreases were more than offset by increases at Joffre and Surmont/Hangingstone. The lower production volumes at both of these areas resulted in less volumes over which to spread costs. If volumes had been the same as the prior year, operating costs at both Joffre and Surmont/Hangingstone on a boe basis would have remained comparable to the prior year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include the direct costs incurred by NAL and the Trust plus the reimbursement of the Manager's general and administrative expenses based on the ratio of NAL's oil and natural gas production to the total oil and natural gas production under the administration of the Manager. General and administrative expenses increased 8% in 1999 to \$1,977,000 from \$1,833,000 in 1998. On a boe basis, general and administrative expenses for 1999 were \$1.05 compared to \$0.91 in 1998, a 15% increase. The delay in the start of NAL's 1999 development program resulted in lower production volumes for the year and increased general and administrative costs on a boe basis. Costs in the amount of \$288,000 that were charged by the Manager to NAL for development programs were capitalized by NAL (1998 - \$407,000).

MANAGEMENT FEES

Management fees are based on a percentage of total revenues after deduction of operating expenses, royalties, general and administrative expenses, interest expense, reclamation costs, taxes and capital expenditures. Management fees were \$861,000 for 1999 compared to \$659,000 in 1998. The increase in management fees is due to higher revenue in 1999. On a boe basis, management fees for 1999 were \$0.46 compared to \$0.33 in 1998.

INTEREST

Interest expense includes amounts on borrowings plus standby fees on the available but unused portion of the credit facility. NAL's average outstanding debt for 1999 was \$51 million (1998 – \$46 million). Interest for 1999 was \$2,794,000 compared to \$2,512,000 for 1998.

NAL borrows by way of issuing Banker's Acceptances, which typically reduces its borrowing costs in comparison to prime rate loans. NAL's average borrowing rate for 1999 was 5.40% compared to 5.30% in 1998. In comparison, the prime rate of NAL's lender averaged 6.43% in 1999 and 6.66% in 1998.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion of the oil and natural gas properties and depreciation of equipment is provided for on a unit-of-production basis using estimated proven reserve volumes. Natural gas volumes are converted to equivalent oil volumes on the basis of the relative energy content (6 mcf natural gas = 1 bbl).

The estimated total future costs for site restoration and abandonment are updated annually. Amortization of future site restoration and abandonment costs is provided for on the unit-of-production basis.

Depletion, depreciation and amortization ("DDA") was \$20.7 million for 1999 compared to \$21.4 million in 1998. On a boe basis, DDA increased to \$9.32 in 1999 compared to \$8.81 in 1998.

TAXES

Taxes include federal and provincial capital taxes. The total taxes for 1999 were \$265,000 compared to \$149,000 in 1998.

The Trust is a taxable trust and files a Trust Income Tax Return annually. The Trust's taxable income consists of the royalty income from NAL less deductions for Canadian Oil and Gas Property Expense ("COGPE") and issue costs.

Based on income tax deductions available to the Trust, the taxable income for 1999 was \$3.8 million or \$0.22119 per Trust Unit. The Trust was non-taxable in 1998.

NETBACK (per boe)

	1999	1998
Revenue	\$ 26.88	\$ 20.01
Royalties	(5.76)	(4.18)
ARC	0.45	0.49
Operating expenses	(4.91)	(4.72)
Operating netback	\$ 16.66	\$ 11.60
General and administrative expenses	(1.05)	(0.91)
Management fees	(0.46)	(0.33)
Netback after fees and general and administrative expenses	\$ 15.15	\$ 10.36

The operating netback per boe for 1999 was \$16.66, which was 44% higher than the 1998 amount of \$11.60. Netback, after deduction of general and administrative expenses and management fees, was \$15.15, 46% higher than the 1998 amount of \$10.36. The increase in 1999 netback can be attributed to higher oil and natural gas prices as compared to 1998.

STATEMENT OF UNITHOLDERS' DISTRIBUTIONS

The Statement of Unitholders' Distributions shows the net income adjusted for non-cash and other items that are used to calculate the Distributable Income. Distributable Income is 99% of the amount calculated from NAL's funds from operations less debt repayments, capital expenditures (to a maximum of 10% of annual cash flow, at the Manager's discretion), contributions to the reclamation reserve fund including interest earned and current abandonment costs, if not funded by the reserve.

Distributable income was \$21.5 million for 1999, 18% higher than the 1998 amount of \$18.2 million. On a per Unit basis, distributable income was \$1.25, 14% higher than the 1998 amount of \$1.12.

Debt Repayment

In 1999 NAL made discretionary debt repayments of \$2.4 million. There were no repayments in 1998.

Capital Expenditures

The capital expenditures deducted from the Distributable Income calculation were \$1.0 million in 1999. The capital expenditure deductions were made during the first two quarters of the year. A portion of the proceeds from the issuance of Trust Units during the third quarter was earmarked for the 1999 development program that began late in the year. In 1998 no amount was deducted for capital expenditures.

Contributions to Reclamation Reserve

The reclamation reserve fund was established in 1996 for the purpose of funding the Trust's future environmental and reclamation obligations. Contributions to the fund are based on estimates of the total future environmental and reclamation costs, estimated timing of abandonments and projected interest rates. The Manager reviews the contributions to the reclamation fund annually. The 1999 contributions to the reclamation reserve fund, including interest, were \$392,000 (1998 – \$386,000). Principal contributions for 2000 are estimated to be \$350,000, which is approximately \$0.02 per Trust Unit.

Abandonment Costs

NAL maintains an ongoing program to abandon wells and facilities that are no longer productive. 1999 abandonment costs were \$245,000 compared to \$211,000 in 1998.

CAPITAL EXPENDITURES

Capital expenditures are financed from cash flow and bank borrowings. Periodically, the debt may be reduced through issuance of additional Trust Units.

(000s)

	1999	1998
Acquisitions	\$ 18,580	\$ 13,063
Dispositions	(244)	(9,949)
Development drilling	2,091	8,399
Facilities & equipment	3,992	1,766
Geological & geophysical	479	417
Other	298	374
	\$ 25,196	\$ 14,070

Total net capital expenditures were \$25.2 million for 1999 compared to \$14.1 million for 1998. During 1999, NAL acquired additional working interests in southeast Saskatchewan, added working interests at Sylvan Lake, Alberta and purchased a gross overriding royalty interest in Sturgeon Lake, Alberta. In total, NAL made acquisitions of \$18.6 million and added approximately 900 boepd of production. Development expenditures totalled \$6.9 million and added approximately 400 boepd production.

CAPITAL RESOURCES AND LIQUIDITY

The capital structure of the Trust is comprised of Trust Units and bank debt.

In September 1999, NAL issued 2,875,000 Trust Units to underwriters at a price of \$6.80 per Unit for gross proceeds of \$19.6 million. The proceeds were used towards acquisitions and to fund the 1999 development program.

NAL has a \$65 million fully secured, extendible revolving term credit facility in place that is used primarily to fund property acquisitions and capital expenditures. Principal repayments are not presently required. Principal repayments will reduce the royalty income available to the Trust. The long-term debt increased \$6.2 million over 1998 mainly as a result of property acquisitions at year end.

(millions)

	1999	1998
Trust unit equity	\$ 110.2	\$ 109.5
Long-term debt	\$ 59.1	\$ 52.9

ENVIRONMENTAL AND SAFETY POLICY

The Manager has developed, in association with industry experts, programs to address environmental management, emergency response and safety.

The environmental management program has guiding principles for conducting business in an environmentally responsible manner. Employees and contractors conduct business in a manner that protects people, wildlife, air, water and soil quality. The Manager provides training and education to ensure employees understand and meet their responsibilities in protecting the environment.

The emergency response plans have been designed specifically for the oil and natural gas fields and the associated facilities that are operated by the Manager. These plans establish responsibilities, lines of communication and action plans for various personnel in the event of an emergency. Field exercises are conducted periodically to simulate an emergency situation.

The Manager places a high priority on maintaining a safe working environment, and ensures all employees and contractors are adequately trained to safely conduct their responsibilities.

The Board of Directors receives and reviews quarterly and annual reports on environmental and safety issues.

YEAR 2000

The Manager of NAL Oil and Gas Trust established a comprehensive program of testing, remediation, external compliance and contingency planning to minimize the overall impact of Year 2000 issues on operations, liquidity and financial condition. All testing, remediation and contingency planning were completed in the fourth quarter of 1999. The Manager has not experienced any significant issues or costs associated with Year 2000. The Manager will continue to monitor potential Year 2000 issues throughout the year to ensure any subsequent issues are addressed.

BUSINESS RISKS AND PROSPECTS

The Canadian oil and natural gas industry is exposed to various risks including the volatility of commodity prices, product market demand, replacement of reserves, government regulations and taxes, exchange rates, interest rates, transportation and marketing constraints and environmental and safety concerns.

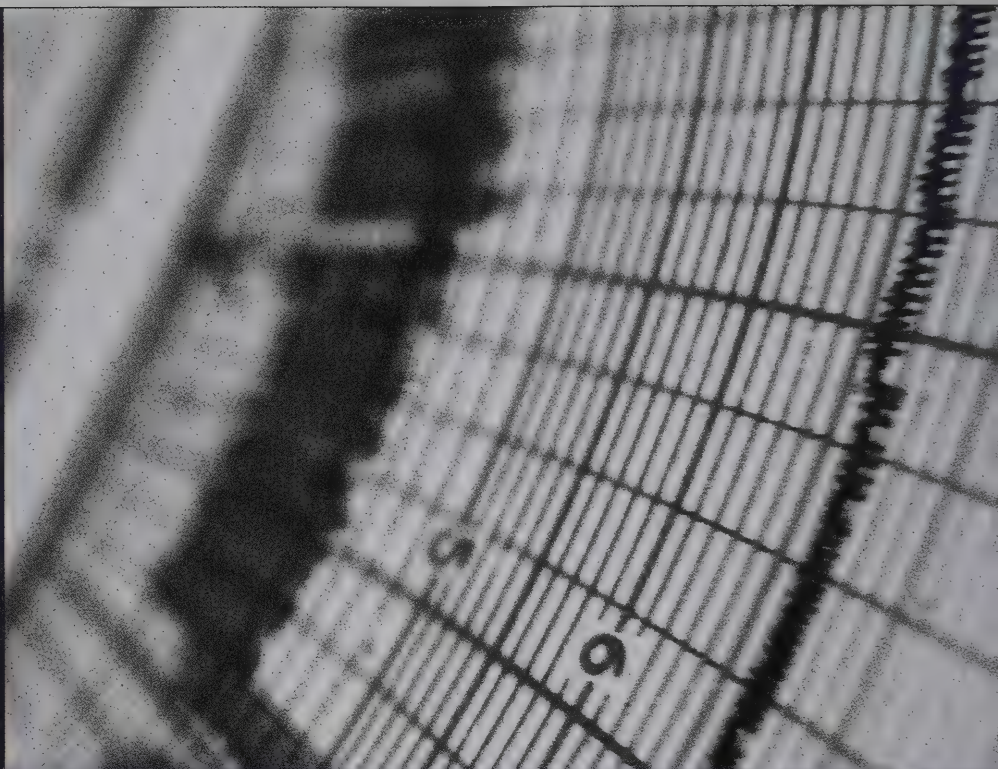
The Manager strives to minimize these risks by:

- employing highly qualified professional staff;
- adhering to strict criteria for property acquisitions;
- geographically diversifying its oil and natural gas properties;
- delivering products to a variety of markets; and
- employing a proactive environmental and safety program.

For continued success, oil and gas royalty trusts require the ability to maintain and increase their oil and natural gas reserves, as well as production. This is accomplished through development of existing oil and gas properties and strategic acquisitions of new properties. However, significant fluctuations in commodity prices may affect both activities. For example, rising commodity prices impact the economics of acquisitions and falling commodity prices impact the economics of development. As operator of many of NAL's core properties, the Manager has the ability to adjust the timing of development activities to optimize the rate of return. The Manager's acquisition criteria ensure that property acquisitions are accretive to Unitholders and add long term value.

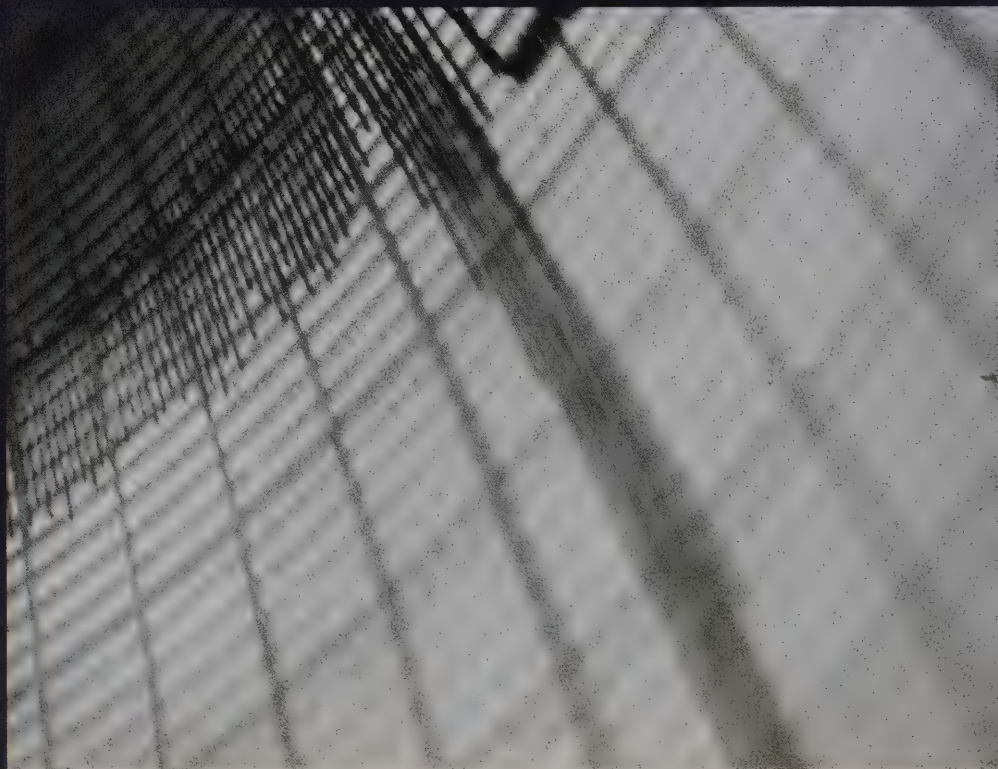
SENSITIVITY ANALYSIS

	Change	Impact on 2000 Distributable Income	Impact on 2000 Distributions per Unit
ASSUMPTIONS			
Commodity Prices			
Oil - \$20.00/bbl (US)	\$ 1.00	\$ 1,413	\$ 0.08
Natural Gas			
Alberta - \$2.90/mcf	\$ 0.10/mcf	\$ 288	\$ 0.01
Lake Erie - \$3.70/mcf	\$ 0.10/mcf	\$ 181	\$ 0.01
Natural Gas Liquids - \$13.78/bbl	\$ 1.00/bbl	\$ 87	\$ 0.00
Exchange Rate			
US - \$1.45/Cdn - \$0.69	0.01 (US)	\$ 195	\$ 0.01
Interest Rate			
Prime rate - 6%	1%	\$ 597	\$ 0.03
Volume Changes			
Oil	10%	\$ 1,922	\$ 0.10
Natural gas	10%	\$ 1,173	\$ 0.06
Natural gas liquids	10%	\$ 51	\$ 0.01



NAL OIL & GAS TRUST

Financial Statements



Management's Report

NAL Resources Management Limited, as manager of NAL Oil & Gas Trust and NAL Energy Inc., is responsible for the preparation of the combined financial statements and the preparation of all other financial information included in the annual report. The combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and where applicable, amounts based on management's best estimates and judgment.

Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that accurate financial information is produced in a timely manner.

The Board of Directors is responsible for reviewing and approving the combined financial statements and, through its Audit Committee, ensuring that management fulfills its responsibilities for financial reporting. The Audit Committee, which is comprised of three independent directors, meets periodically with management and the external auditors to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the combined financial statements and recommends their approval to the Board of Directors.

KPMG LLP, an independent firm of Chartered Accountants, appointed by the Unitholders of NAL Oil & Gas Trust, have audited the combined financial statements in accordance with Canadian generally accepted auditing standards. KPMG LLP has full and free access to the Audit Committee.



Donald P. Driscoll
President and CEO



Arlene E. Weatherdon
Vice President, Finance and CFO

February 23, 2000

Auditors' Report to the Unitholders

We have audited the combined balance sheets of NAL Oil & Gas Trust as at December 31, 1999 and 1998, the combined statements of income and unitholders' equity, the statements of unitholders' distributions and the combined statements of cash flows for the years then ended. These financial statements are the responsibility of the Trust's manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the manager, as well as evaluating the overall financial presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1999 and December 31, 1998 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Calgary, Canada

February 23, 2000

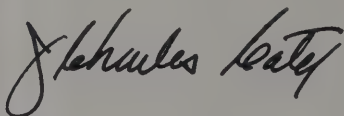
Combined Balance Sheet

(thousands of dollars) (audited)

	December 31 1999	December 31 1998
ASSETS		
Current assets		
Cash and short-term investments	\$ 1,779	\$ 49
Accounts receivable	9,326	6,976
	\$ 11,105	\$ 7,025
Deferred charges (Note 4)	\$ 490	\$ 616
Reclamation reserve (Note 5)	1,405	1,011
Property, plant and equipment, net (Note 6)	165,534	159,473
	\$ 178,534	\$ 168,125
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,910	\$ 1,719
Distributions payable to Unitholders	1,909	1,135
	\$ 4,819	\$ 2,854
Long term debt (Note 7)	\$ 59,100	\$ 52,900
Future site restoration	4,399	2,862
	\$ 63,499	\$ 55,762
Share capital (Note 8)	\$ —	\$ —
Unitholders' equity	110,216	109,509
	\$ 110,216	\$ 109,509
	\$ 178,534	\$ 168,125
Units outstanding	19,086,800	16,211,800

See accompanying notes.

On behalf of the Board of NAL Energy Inc.



J. Charles Caty
Director and Chairman of the Board



Irvine J. Koop
Director and Chairman of the Audit Committee

NAL OIL & GAS TRUST

Combined Statements of Income and Unitholders' Equity

	For the year ended December 31 1999	For the year ended December 31 1998
(thousands of dollars, except per unit amounts) (audited)		
REVENUE		
Oil, natural gas and liquids sales	\$ 50,448	\$ 40,366
Other	314	716
Alberta Royalty Credit	852	996
Crown royalties	(9,346)	(7,347)
Freehold and other royalties	(1,464)	(1,078)
	\$ 40,804	\$ 33,653
EXPENSES		
Operating (Note 5)	\$ 9,215	\$ 9,524
General and administrative	1,977	1,833
Management fees (Note 10)	861	659
Interest on long-term debt	2,794	2,512
Depletion, depreciation and amortization	20,672	21,363
Capital taxes	265	149
	\$ 35,784	\$ 36,040
Net income (loss)	\$ 5,020	\$ (2,387)
Unitholders' equity, beginning of year	109,509	129,079
Dividends	(404)	(323)
Issue of trust units, net of issue costs (Note 9)	18,423	—
Distributions declared	(22,332)	(16,860)
Unitholders' equity, end of year	\$ 110,216	\$ 109,509
Net income (loss) per trust unit	\$ 0.292	\$ (0.147)
Weighted average units outstanding	17,172,759	16,211,800

See accompanying notes.

Statement of Unitholders' Distributions

(thousands of dollars, except per unit amounts) (audited)	For the year ended December 31 1999	For the year ended December 31 1998
Net income (loss)	\$ 5,020	\$ (2,387)
Depletion, depreciation and amortization	20,672	21,363
Funds from operations	\$ 25,692	\$ 18,976
Deduct:		
Debt repayment	2,354	—
Capital expenditures	1,028	—
Contributions to reclamation reserve (Note 5)	392	386
Actual abandonment costs (Note 5)	245	211
	\$ 21,673	\$ 18,379
Distributable income at 99%	\$ 21,456	\$ 18,195
Alberta Royalty Credits receivable	(843)	(986)
Alberta Royalty Credits received	997	5
Balance carried forward from prior year	722	368
Available for distribution to Unitholders	\$ 22,332	\$ 17,582
Distributions paid	(22,332)	(16,860)
Balance to be carried forward	\$ 0	\$ 722
Distributable income, per unit*	\$ 1.25	\$ 1.12
Distributions paid, per unit (Note 11)	\$ 1.28	\$ 1.04
Weighted average units outstanding	17,172,759	16,211,800

See accompanying notes

* Per unit calculations are based on weighted average units outstanding for the year, except for distributions paid, which reflect actual distributions

Combined Statement of Cash Flows

	For the year ended December 31 1999	For the year ended December 31 1998
<i>(thousands of dollars) (audited)</i>		
OPERATING ACTIVITIES		
Net income (loss)	\$ 5,020	\$ (2,387)
Items not involving cash		
Depletion, depreciation and amortization	20,672	21,363
Cash flow from operations	\$ 25,692	\$ 18,976
Increase in non-cash working capital	(2,938)	(2,950)
	\$ 22,754	\$ 16,026
FINANCING ACTIVITIES		
Issue of trust units, net of issue costs	\$ 18,423	\$ -
Distributions paid	(21,558)	(17,347)
Advances from long-term debt	6,200	15,000
Decrease in non-cash working capital	105	35
Dividends paid	(187)	(323)
	\$ 2,983	\$ (2,635)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	\$ (25,196)	\$ (14,070)
Reclamation reserve	(394)	(388)
Decrease in non-cash working capital	1,583	990
	\$ (24,007)	\$ (13,468)
Increase (decrease) in cash and short-term investments	\$ 1,730	\$ (77)
Cash and short-term investments, beginning of year	\$ 49	\$ 126
Cash and short-term investments, end of year	\$ 1,779	\$ 49
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 2,648	\$ 2,447
Taxes	\$ 265	\$ 149

See accompanying notes.

Notes to the Combined Financial Statements

(Tabular amounts in thousands of dollars, except per unit amounts)

1. BASIS OF PRESENTATION

NAL Oil & Gas Trust's (the "Trust") financial statements include both the accounts of the Trust, its wholly owned subsidiary NAL Oil & Gas Ltd. and NAL Energy Inc. ("NAL Energy") (collectively the "NAL Group") on a combined basis, and have been prepared in accordance with Canadian generally accepted accounting principles. All inter-entity transactions have been eliminated. The financial statements have been prepared on a combined basis as the Trust and the shareholders of NAL Energy have entered into a unanimous shareholder's agreement that enables the Trust and its Unitholders to determine the strategic operating, investing, and financing policies of NAL Energy. Pursuant to the terms of a royalty agreement, the Trust has the ability to obtain the future economic benefits from the resources of NAL Energy.

2. STRUCTURE OF THE TRUST

The Trust is an investment trust formed under the laws of the Province of Alberta pursuant to a trust indenture (the "Trust Indenture") dated March 8, 1996. NAL Energy acquires oil and natural gas properties and sells a royalty to the Trust equal to 99% of the revenues from the properties less certain defined costs and debt repayments. NAL Energy, NAL Oil & Gas Ltd. and the Trust are managed by NAL Resources Management Limited (the "Manager"). The Manager receives a management fee from NAL Energy and NAL Oil & Gas Ltd. equal to 3.75% of the total revenues received from the sales of petroleum substances and other income sources, less operating costs, royalties, general and administrative expenses, interest expense, capital expenditures (to a limit of 10% of annual cash flow, at management's discretion), reclamation costs and taxes, plus 1.75% of the cost of any acquisitions made during the year.

Effective January 1, 1998, the Trust was converted from a closed-end investment trust to an open-end investment trust. The purpose of this conversion was to expand the Trust's permitted investments to include the acquisition and holding of all forms of petroleum and natural gas related assets and entities. The conversion of the Trust necessitated an amendment to the Trust Indenture to, among other things, provide that a Unitholder may require the Trust at any time, on demand of the Unitholder, to redeem his or her Trust Units. The redemption price is determined by a market price formula.

A special resolution was passed, effective December 1, 1997, approving a Distribution Reinvestment and Optional Trust Unit Purchase Plan. The Plan allows eligible Unitholders to purchase additional Trust Units by re-investing their cash distributions.

3. SUMMARY OF ACCOUNTING POLICIES

Property, Plant and Equipment

The NAL Group follows the full cost method of accounting for oil and natural gas properties whereby all acquisition and development costs are capitalized. Such costs include land acquisition, geological and geophysical and drilling costs for productive and non-productive wells. General and administrative costs charged by the Manager directly related to development activities are capitalized.

Depletion of oil and natural gas properties and depreciation of equipment is calculated using the unit-of-production method based on total proven reserves as estimated by independent engineers. Natural gas reserves are converted to barrels of oil equivalent based on relative energy content. Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such sale would alter the depletion and depreciation rate by 20% or more.

The aggregate cost of the oil and natural gas properties less accumulated depletion, depreciation and amortization (the "carrying value") is limited to the estimated future net revenue from proven reserves, based on prices and costs in effect at year end, less general and administrative expenses, financing costs, and income taxes (the "ceiling value"). Any excess of the carrying value over the ceiling value is charged to earnings.

Future Site Restoration Costs

Future site restoration and abandonment costs are estimated by the Manager's engineers based on current regulations, technology, and industry standards. Estimated future site restoration and abandonment costs are provided for using the unit-of-production method based on proven reserves. Actual site restoration and abandonment costs are charged against the liability as incurred.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates of reserves and future costs. Though considered reasonable by the Manager, these estimates are subject to measurement uncertainty, the impact of which on future financial statements could be material.

Income Taxes

The Trust is a taxable trust under the Canadian Income Tax Act. Any taxable income of the Trust is allocated to the Unitholders; therefore, no provision for income taxes relating to the Trust is included in these financial statements.

NAL Energy and NAL Oil & Gas Ltd. are Canadian corporations subject to tax in various jurisdictions. NAL Energy can deduct royalty payments to the Trust in determining taxable income, and is generally liable for income taxes on its 1% residual interest. NAL Energy and NAL Oil & Gas Ltd. are subject to capital tax in any jurisdiction (federal and provincial) in which they have a permanent establishment. For NAL Energy these taxes are deducted from distributable income in accordance with the Royalty Agreement (see Note 13).

Joint Ventures

Substantially all of the development and production activities are conducted jointly with others and, accordingly, these financial statements reflect only the NAL Group's proportionate interest in such activities.

Financial Instruments

NAL Energy uses financial instruments to manage exposure related to changes in oil and gas commodity prices. They are not used for trading purposes. Gains or losses on changes in oil and gas commodity prices are recognized in income in the same period and in the same financial statement category as the income or expense arising from corresponding commodity swap contracts.

4. DEFERRED CHARGES

Deferred charges are the difference between the proceeds of Banker's Acceptances and the par value. The deferred charges are amortized over the term of the underlying Banker's Acceptance. During 1999, deferred charges of \$2,784,000 (1998 – \$2,497,000) were amortized and recorded as interest on long-term debt.

5. RECLAMATION RESERVE

NAL Energy has established a reclamation reserve for the purpose of funding its future site restoration obligations. During 1999, \$350,000 (1998 – \$350,000) was deposited to this reserve. The reserve earned \$42,000 interest in 1999 (1998 – \$36,000). The quarterly deposit amount may be adjusted by NAL Energy from time to time based on its assessment of its share of expected future site restoration costs.

In accordance with the Royalty Agreement, operating costs included in the distributable income calculation include actual site restoration costs in the amount of \$245,000 (1998 – \$211,000) that were incurred during 1999. The operating costs included in the income statement do not include the current year's actual site restoration costs as these costs have been charged against the accrued liability in accordance with generally accepted accounting principles. No amounts paid to the reserve were used to fund actual site restoration costs incurred in 1999.

6. PROPERTY, PLANT & EQUIPMENT

NET BOOK VALUE

	December 31, 1999	December 31, 1998
Oil and natural gas properties, at cost	\$ 233,635	\$ 208,695
Less: Accumulated depletion and depreciation	\$ 68,101	49,222
	\$ 165,534	\$ 159,473

During 1999, NAL Energy capitalized \$288,000 (1998 – \$407,000) of costs that were directly related to exploitation and development programs.

7. LONG-TERM DEBT

NAL Energy has a revolving credit facility of \$65 million. The credit facility is fully secured by a floating debenture over NAL Energy's assets, and a general assignment of book debts. Borrowings may be in the form of prime loans, Banker's Acceptances, US base rate loans, or London Interbank Offered Rate (LIBOR) loans. Amounts advanced under the credit facility bear interest at the bank's prime rate or at Banker's Acceptance rates plus a stamping fee charge. The revolving term credit facility is for a period of one year with a term out period of six years. The term date may be extended annually for an additional 364 days upon agreement between NAL Energy and the bank. The Manager does not expect the bank to require any payment on account of principal within the next year.

While debt repayments are a deduction from the royalty payable to the Trust, the long-term debt is the legal obligation of NAL Energy. The Trust Unitholders have no direct liability to NAL Energy should the properties securing the debt generate insufficient income to discharge the debt.

8. SHARE CAPITAL

Authorized:

The authorized share capital of NAL Energy consists of an unlimited number of common shares without nominal or par value.

Issued:

Effective December 29, 1999 the one outstanding share of NAL Energy was sold by NAL Resources Management Limited to 857356 Alberta Ltd., which is wholly owned by the Canadian Staff Pension Plan of the Manufacturers Life Insurance Company.

9. TRUST UNITS**Authorized:**

500,000,000 Trust units

Issued:

	1999		1998	
	Units	Amount	Units	Amount
Opening balance	16,212	\$ 154,903	16,212	\$ 154,903
Issued for cash	2,875	19,550	—	—
Less: Issue expenses	—	1,127	—	—
Balance at end of year	19,087	\$ 173,326	16,212	\$ 154,903

10. RELATED PARTY TRANSACTIONS

The Manager provides services to NAL Energy and the Trust pursuant to a management agreement. During 1999, the Manager charged NAL Energy \$861,000 (1998 – \$659,000) for management fees and \$1,389,000 (1998 – \$1,341,000) for general and administrative costs. Costs in the amount of \$288,000 (1998 – \$407,000) relating to development programs and \$234,000 (1998 – \$196,000) relating to fees on acquisitions were capitalized by NAL Energy (see Note 3).

The following amounts are due to and from related parties:

	1999	1998
Due from NAL Resources Limited	\$ 3,048	\$ 1,632
Due to NAL Resources Management Limited	\$ 530	\$ 456

Effective December 15, 1999 the Trust purchased all the outstanding common shares of NAL Oil & Gas Ltd. creating a wholly owned subsidiary. At that time, NAL Oil & Gas Ltd. had net assets with an estimated fair value of \$5.9 million.

11. DISTRIBUTIONS

Record Date:	Per Unit	Total
January 29, 1999	\$ 0.07	\$ 1,135
February 26, 1999	0.07	1,135
March 31, 1999	0.07	1,135
April 30, 1999	0.07	1,135
May 31, 1999	0.07	1,135
June 30, 1999	0.14	2,270
July 30, 1999	0.12	1,945
August 31, 1999	0.12	1,945
September 30, 1999	0.15	2,863
October 29, 1999	0.15	2,863
November 30, 1999	0.15	2,863
December 31, 1999	0.10	1,908
Cash distributions to Unitholders	\$ 1.28	\$ 22,332
Balances from prior year	(0.03)	(876)
Total distributions earned	\$ 1.25	\$ 21,456

12. FINANCIAL INSTRUMENTS

NAL Energy is exposed to fluctuations in commodity prices. NAL Energy monitors these and, when appropriate, utilizes financial instruments to manage its exposure to this risk.

Financial instruments are subject to fluctuations in prices and rates, but by nature of being hedges on an actual or anticipated transaction, any gains or losses are offset by gains or losses on the hedged transaction.

NAL Energy is exposed to losses in the event of non-performance by counter-parties to the financial instruments. NAL Energy deals with major institutions and does not anticipate non-performance by counter-parties.

Commodity Price Risk Management

Oil:

NAL Energy uses commodity swap contracts to manage its exposure to commodity price fluctuations related to a portion of its future oil sales. During 1999, a total of 156,400 barrels of oil (850 barrels per day from July 1, 1999 to December 31, 1999) was hedged at US\$18.25 per barrel, using a fixed price swap contract. NAL Energy recognized a loss of \$1,121,000 on the above contract. The amount was included in oil revenue. There were no fixed price swap contracts outstanding at December 31, 1999.

Gas:

NAL Energy entered into two put option agreements. The first agreement placed a floor price of \$2.43 per mcf on 251,852 mcf of natural gas for the period of January 1, 1999 to March 31, 1999. The second agreement placed a floor price of \$2.43 per mcf on 426,908 mcf of natural gas for the period of May 1, 1999 to October 31, 1999. The options expired unexercised and there were no put options outstanding as of December 31, 1999.

Credit Risk Management

Accounts receivable include amounts receivable for oil and gas sales. These sales are generally made to large, creditworthy purchasers. NAL Energy views the credit risks on these items as low. Amounts receivable from joint venture partners included in accounts receivable are recoverable from production and, accordingly, NAL Energy views the credit risks on these amounts as minimal.

Fair Values

The carrying value of the NAL Group's financial instruments, including cash and short-term investments, accounts receivable, long-term debt, and accounts payable and accrued liabilities approximate their fair value.

13. INCOME TAXES

Trust:

Taxable income for the Trust for 1999 was \$3,844,000 (1998 – nil). Taxable income consists of income from the royalty less deductions for the Trust's general and administrative costs, resource allowance, Canadian Oil and Gas Property Expense ("COGPE") and issue costs. Any losses arising from the calculation of taxable income are carried forward and are deductible against future taxable income for a period of seven years. The Trust has the following tax balances available to be claimed against future income for tax purposes:

	1999	1998
COGPE	\$ 128,606	\$ 128,244
Unamortized issue costs	\$ 3,576	\$ 5,007

NAL Energy and NAL Oil & Gas Ltd.:

NAL Energy had no taxable income for 1999 (1998 – nil) while NAL Oil & Gas Ltd. had \$200,000 taxable income for 1999. Taxable income consists of net revenues from oil and natural gas properties and other sources less deductions for resource allowance, COGPE, Canadian Development Expense ("CDE") and Capital Cost Allowance ("CCA"). NAL Energy also receives a deduction for the royalty paid to the Trust. Any losses arising from the calculation of taxable income are carried forward and are deductible against future taxable income for a period of seven years. NAL Energy has the following tax balances available to be claimed against future income for tax purposes:

	1999	1998
COGPE	\$ –	\$ –
CDE	\$ –	\$ –
CCA	\$ 37,754	\$ 34,082

14. RECLASSIFICATION

Certain amounts for 1998 have been reclassified to conform with the presentation adopted for 1999.

INCOME TAX INFORMATION

How do I report my distributions when filing my income tax returns?

For tax purposes, distributions are either a return on capital, a return of capital or a combination of the two. The distinction will depend on the taxable status of NAL Oil & Gas Trust (the "Trust"). Depending on the availability of various tax pools, the Trust may have no taxable income in a given year, even though it had positive earnings per the financial statements. In the event the Trust has enough tax deductions from its various tax pools to fully shelter its income, the distributions that were made to Unitholders for that year, for tax purposes, will be treated as a return of capital rather than income, and would be tax deferred. The distributions would not be reported in the Unitholder's personal tax return. However, these distributions would reduce the Unitholder's cost base of the royalty trust unit and would impact the calculation of the capital gain or loss in the event of a sale of the Trust units.

If the Trust has taxable income, then either a portion of, or all of, the year's distributions would be taxable. The taxable portion of a distribution, which is considered for tax purposes as a return on capital, would be reported by the Unitholder as "other income" on his or her personal tax return. These distributions would then be taxable at the individual Unitholder's personal tax rate.

What happens if my units are held in a registered investment vehicle?

If the units are held within an RRSP, DPSP or RRIF, then neither the units nor any distributions from the units need to be reported on the Unitholder's personal tax return.

How do I calculate the taxable portion of my distribution?

The 1996 and 1998 distributions for the Trust were fully sheltered by the available tax pools and Unitholders were not required to report cash distributions received on their personal tax returns. The distributions for 1996 and 1998 reduced the adjusted cost base (the "ACB") of the Trust's units.

The Trust's 1997 and 1999 income was not fully sheltered. Therefore a portion of the cash distributions would be considered "other income" for tax purposes. The accompanying schedule indicates the portion of each cash distribution that should be considered taxable to the Unitholder. The remaining portion is a return of capital that reduces the Unitholders' ACB of their Trust units.

For 2000, the Manager estimates that approximately 30% of the cash distributions will be taxable.

SUMMARY OF DISTRIBUTIONS

RECORD DATE	DISTRIBUTION	OTHER INCOME	RETURN OF CAPITAL
June 30, 1996	\$ 0.16000	—	\$ 0.16000
September 30, 1996	0.27000	—	0.27000
December 31, 1996	0.34000	—	0.34000
	\$ 0.77000	—	\$ 0.77000
March 31, 1997	\$ 0.38000	\$ 0.02685	\$ 0.35315
June 30, 1997*	0.37000	0.02402	0.34598
July 31, 1997	0.10000	0.00707	0.09293
August 31, 1997	0.10000	0.00707	0.09293
September 8, 1997	0.03000	0.00212	0.02788
September 30, 1997	0.10000	0.00707	0.09293
October 31, 1997	0.10000	0.00706	0.09294
November 30, 1997	0.10000	0.00706	0.09294
December 31, 1997	0.10000	0.00706	0.09294
	\$ 1.38000	\$ 0.09538	\$ 1.28462
January 31, 1998	\$ 0.10000	—	\$ 0.10000
February 28, 1998	0.10000	—	0.10000
March 31, 1998	0.10000	—	0.10000
May 1, 1998	0.10000	—	0.10000
May 31, 1998	0.10000	—	0.10000
June 30, 1998	0.07000	—	0.07000
July 31, 1998	0.07000	—	0.07000
August 31, 1998	0.07000	—	0.07000
September 30, 1998	0.07000	—	0.07000
October 31, 1998	0.07000	—	0.07000
November 30, 1998	0.12000	—	0.12000
December 31, 1998	0.07000	—	0.07000
	\$ 1.04000	—	\$ 1.04000
January 29, 1999	\$ 0.07000	\$ 0.01261	\$ 0.05739
February 26, 1999	0.07000	0.01261	0.05739
March 31, 1999	0.07000	0.01261	0.05739
April 30, 1999	0.07000	0.01261	0.05739
May 31, 1999	0.07000	0.01261	0.05739
June 30, 1999	0.14000	0.02522	0.11478
July 30, 1999	0.12000	0.02162	0.09838
August 31, 1999	0.12000	0.02162	0.09838
September 30, 1999**	0.15000	0.01762	0.13238
October 29, 1999	0.15000	0.02702	0.12298
November 30, 1999	0.15000	0.02702	0.12298
December 31, 1999	0.10000	0.01802	0.08198
	\$ 1.28000	\$ 0.22119	\$ 1.05881

* Includes ARC of \$0.03, which is a return of capital.

** Includes ARC of \$0.05221, which is a return of capital.

SUPPLEMENTARY INFORMATION

UNIT TRADING

	1999				1999	1998	1997
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
High	\$ 6.85	\$ 7.50	\$ 7.80	\$ 7.90	\$ 7.90	\$ 9.35	\$ 10.90
Low	\$ 5.25	\$ 5.95	\$ 6.70	\$ 6.70	\$ 5.25	\$ 4.55	\$ 7.70
Close	\$ 6.30	\$ 6.95	\$ 7.50	\$ 7.10	\$ 7.10	\$ 5.50	\$ 8.50
Volume	767,913	737,653	2,292,783	1,504,683	5,303,032	4,333,807	6,963,730

DAILY PRODUCTION VOLUMES

	1999				1999	1998	1997
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
Oil (bbl)	3,647	3,310	3,428	3,589	3,493	3,621	2,961
Natural gas (mcf)	13,244	12,870	15,450	14,396	13,997	16,712	16,820
Natural gas liquids (bbl)	208	210	261	314	249	235	226
Total (boe)*	5,179	4,807	5,234	5,343	5,142	5,527	4,869

NAL OIL & GAS TRUST

AVERAGE PRICES

	1999				1999	1998	1997
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
Oil (bbl)	\$ 18.09	\$ 24.88	\$ 28.99	\$ 33.86	\$ 26.42	\$ 19.36	\$ 26.98
Natural gas (mcf)	\$ 2.66	\$ 2.62	\$ 3.28	\$ 3.46	\$ 3.03	\$ 2.24	\$ 2.29
Natural gas liquids (bbl)	\$ 9.58	\$ 15.50	\$ 18.69	\$ 18.88	\$ 16.20	\$ 11.97	\$ 21.37
Total (boe)*	\$ 20.53	\$ 24.92	\$ 29.23	\$ 32.35	\$ 26.88	\$ 20.01	\$ 25.20

*Natural gas converted to barrel of oil equivalent based on 10 mcf = 1bbl.

DISTRIBUTION REINVESTMENT PLAN

As part of its Unitholder services, NAL offers a Distribution Reinvestment and Optional Trust Unit Purchase Plan (the "Plan") for all Canadian Unitholders. The Plan allows eligible holders of NAL Oil & Gas Trust units to conveniently purchase additional Trust units by directly reinvesting their monthly cash distributions.

Upon enrollment in the Plan, monthly distributions earned by the Unitholder are automatically reinvested in Trust units. The Trust may choose to issue units from treasury or purchase units from the Toronto Stock Exchange. When issuing from treasury, the price per unit is determined to be the weighted average trading price of all Trust units traded on the Toronto Stock Exchange in the 10 days preceding a cash distribution date. When the units are purchased from the market, the price is determined as the average price for a period of up to 10 trading days following the date of the cash distribution.

An added benefit of distribution reinvestment is that there is no charge to participants for purchasing additional units. The fees for handling the reinvestment of distributions charged by The Trust Company of Bank of Montreal (the "Plan Agent") are paid by the Trust. There are no brokerage fees charged to participants with respect to Trust units issued either from treasury or purchased through the open market.

Statements of Account are maintained for each participant in the Plan and are mailed by the Plan Agent to participants approximately three weeks after each investment is made. Certificates for the new Trust units purchased through the Plan are held for participants and reported on the statement of account. The full monthly distribution is invested in new units on a monthly basis, even for partial units.

Trust units being held for Plan participants may not be pledged, sold or otherwise disposed of by the Unitholder. The Unitholder who wishes to do any of the above must request that a certificate be issued before any such transaction may occur. The Plan Agent generally issues certificates within two weeks of receipt of the request.

The Unitholder may terminate participation in the Plan by providing written notice to the Plan Agent at least three days before the Record Date for that month's distribution. Otherwise, Plan termination will occur in the following month. When termination is requested, Unitholders will receive a certificate for the whole Trust units held in their account, plus a cash payment for any fraction of a Trust unit that they may have purchased.

In the event that the Unitholder who is a member of the Plan sells or transfers all Trust units held in certificate form, the Plan Agent will continue to invest the cash distribution of the units until the Plan Agent receives notice of termination.

For further information about the Plan and to request forms for enrollment, please contact the Plan Agent as follows:

The Trust Company of Bank of Montreal
129 Saint Jacques Street West
B Level North
Montreal, Quebec H2Y 1L6
Phone: 800-332-0095
Fax: (514) 877-9676



Corporate Governance

NAL OIL & GAS TRUST

Under the rules of the Toronto Stock Exchange ("TSE") every listed company must disclose its approach to corporate governance with specific reference to each of the guidelines set out by the TSE. The guidelines address matters such as the constitution and independence of the Board of Directors; functions to be performed by the Board and its committees; and effectiveness of the Board, its committees and individual directors. The Board of Directors of NAL Energy Inc. ("NAL") believes that sound corporate governance practices are essential to the well-being of NAL and the Trust's Unitholders. The Board of Directors has addressed each of the TSE's guidelines in the Information Circular.

DIRECTORS AND OFFICERS (*Denotes member of the Audit Committee)**J. Charles Caty***

Charles Caty is Chairman of the Board of NAL Energy Inc. From 1991 until 1995, he was President and Chief Executive Officer of the Investment Dealers Association of Canada. Prior to this, Mr. Caty spent 29 years at RBC Dominion Securities, retiring as Vice President & Director in charge of Equity Trading, Institutional Sales & Research. During this period, he also served two years as the Chairman of the Toronto Stock Exchange. Mr. Caty is a Director of Aliant Inc. and CGU Group Canada Ltd. He holds a B.Comm. from McGill University.

**Richard B. Coles**

Richard Coles is Director of NAL Energy Inc. and holds the position of Executive Vice President, Investments of Manulife Financial. He is responsible for Manulife's investment portfolios valued at approximately \$10 billion. Mr. Coles graduated with a B.A. in Physics from the University of Western Ontario and an MBA in Finance and Marketing from York University.

**Donald P. Driscoll**

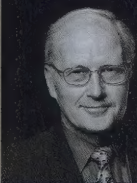
Don Driscoll is Director, President and Chief Executive Officer of NAL Energy Inc. and President and Chief Executive Officer of the Manager. He brings to the position more than 15 years of oil and natural gas investment management expertise. Mr. Driscoll has a B.Sc. in Physics from St. Francis Xavier University and an MBA from the University of Western Ontario.

**Irvine J. Koop***

Irvine Koop is Director of NAL Energy Inc. He is Executive Vice President and President and Chief Executive Officer, Pipelines & Midstream, Westcoast Energy Inc. Mr. Koop has more than 30 years' experience in the oil and natural gas industry. He is also a director of Compton Petroleum Corporation and Foothills Pipeline. In 1992, he became the inaugural Chairman of the Canadian Association of Petroleum Producers ("CAPP"). Mr. Koop holds a B.Sc. in Mechanical Engineering from the University of Manitoba and has completed the Advanced Management Program at the Wharton School of Business, University of Pennsylvania.

**Dennis G. Flanagan***

Dennis Flanagan is Director of NAL Energy Inc. Mr. Flanagan was Executive Chairman of Elan Energy Inc. until that company was sold to Ranger Oil Ltd. in September 1997. Prior to that, he was Chief Executive Officer of Elan and its predecessor companies from 1978 until 1994. Earlier in his career, Mr. Flanagan also held the position of Executive Vice President of Ranger Oil Ltd. He is also a Director of Prudential Steel Ltd., Caravan Oil and Gas Ltd. and Aqua-Pure Ventures Inc.

**Fred W. Kelly**

Fred Kelly is Vice President, Operations of NAL Energy Inc. and the Manager. He has more than 35 years of oil and natural gas industry experience in production, development, exploration and reservoir engineering, working in Canada, Libya and the United States. Mr. Kelly received his B.Sc. in Petroleum Engineering from the University of Oklahoma.

**Arlene E. Weatherdon**

Arlene Weatherdon is Vice President, Finance and Chief Financial Officer of NAL Energy Inc. and the Manager. She is a Chartered Accountant and a member of the Institute of Chartered Accountants of Alberta and holds a B.Comm. from the University of Calgary. Ms. Weatherdon brings to NAL more than 14 years of related industry experience.

**Ben L. Bury**

Ben Bury is Vice President, Marketing and Business Development of NAL Energy Inc. and the Manager. He has more than 30 years' oil and natural gas industry experience in production, natural gas plant operation and marketing. Mr. Bury holds a B.Sc. in Mechanical Engineering from the University of Alberta and an MBA from the University of Western Ontario.

CORPORATE INFORMATION

NAL ENERGY INC.

The Annual General Meeting of Unitholders of NAL Oil & Gas Trust will be held on Thursday, April 27, 2000 at 3:00 p.m. in the McMurray Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

Unitholders unable to attend are invited to complete and return the proxy form enclosed.

Directors & Officers

J. Charles Caty*
*Chairman of the Board
Retired Investment Executive
Oakville, Ontario*

Donald P. Driscoll
*Director; President &
Chief Executive Officer
Calgary, Alberta*

Richard B. Coles
*Director
Executive Vice President,
Investments
Manulife Financial
Toronto, Ontario*

Irvine J. Koop*
*Executive Vice President,
Westcoast Energy Inc. and
President & Chief Executive Officer,
Pipelines and Midstream
Calgary, Alberta*

Dennis G. Flanagan*
*Director
Retired Petroleum Executive
Calgary, Alberta*

Fred W. Kelly
*Vice President, Operations
Calgary, Alberta*

Arlene E. Weatherdon
*Vice President, Finance &
Chief Financial Officer
Calgary, Alberta*

Ben L. Bury
*Vice President, Marketing &
Business Development
Calgary, Alberta*

Donald M. Boykiw
*Corporate Secretary
Partner, Bennett Jones
Calgary, Alberta*

*Independent Director

Head Office

NAL Resources
Management Limited,
NAL Energy Inc.,
and NAL Oil & Gas Trust
600, 550 - 6th Avenue S.W.
Calgary, Alberta T2P 0S2
Phone: (403) 294-3600
Fax: (403) 294-3601

Legal Counsel

Bennett Jones

Auditor

KPMG LLP

Bank

Bank of Montreal

Trustee & Transfer Agent

The Trust Company of
Bank of Montreal
1-800-332-0095

Trading

The Toronto Stock Exchange
Symbol: NAE.UN

For further information contact:

Donald P. Driscoll
President & Chief Executive Officer
or

Arlene E. Weatherdon
Vice President, Finance &
Chief Financial Officer

Phone Toll-Free: 1-888-223-8792
In Calgary: (403) 294-3600
Fax: (403) 515-3401
E-mail: investor.relations@nal.ca
Website: www.nal.ca

NAL OIL & GAS TRUST

BOE

Barrels of oil equivalent, determined on the basis that ten mcf of natural gas is equivalent to one barrel of oil.

CROWN ROYALTY

The government's share of production, free and clear of any costs of production.

EXIT RATE

The level of measurable production from an oil or natural gas well at a specific point in time. As levels of production can vary at different points in the year, the annual exit rate is measured as the daily production on the last day of the year.

HORIZONTAL WELL AND HORIZONTAL DRILLING

A well that is drilled vertically to the zone of interest and is then turned to drill through the zone of interest horizontally.

INFILL DRILLING

An oil or natural gas well drilled between producing wells. Infill wells typically increase production and result in higher recovery levels for the reservoir.

MCDANIEL REPORT

McDaniel & Associates Consultants Ltd., are independent petroleum engineers who provide independent valuations of oil and natural gas reserves of the NAL Group. The report includes present worth values of the estimated future net reserves, both proven and probable.

NETBACK

Netback is a measure calculated by taking the gross revenue received on the sale of a boe less the cost of producing that boe and the royalty payable on it. For example: boe sells for \$25.00. The cost to produce that boe was \$6.00 and the royalty is payable at a 10% rate. The netback is \$25.00 less \$6.00, less \$2.50, for a net total of \$16.50 per boe.

OPERATOR

On lands with diverse ownership, one owner is elected to operate the lands in the best interest of all the owners. This owner is considered the operator.

PROBABLE RESERVES

Those reserves that analysis suggest exist and whose future recovery, under current technology, is highly likely.

PROVEN RESERVES

Those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions.

RE-COMPLETION

An existing cased well is reconfigured to produce from another zone of interest.

RE-ENTRY HORIZONTAL WELL

An existing cased vertical well is re-entered and a window drilled out of the side of the well. From this window, a horizontal well is drilled through the zone of interest.

RECLAMATION RESERVE

This is a fund established to provide for future environmental and reclamation obligations. After an oil or natural gas well has reached the end of its economic life, all equipment from the well must be removed, the well must be plugged, and the occupied surface area must be restored to its original state. The reclamation fund accumulates funds to meet these future obligations based on an annual review and the forecast timing of abandonments.

RESERVOIR

Petroleum is found beneath the earth in areas where oil and natural gas have become trapped in porous rock formations, surrounded by non-porous rock, which contains the reservoir.

UNIT

An area is defined as a unit when leases of diverse ownership are pooled and operated by one company for the benefit of all owners. This improves the operation by allowing coordination of different programs such as advanced oil recovery, waterflood, pressure maintenance, etc.

WORKING INTEREST

The interest in a lease that carries with it the rights and obligations to develop and operate an oil or natural gas property.

WORKOVER

This term is used to define any work (other than regular maintenance) performed on a completed well that would aid in maintaining, restoring or improving production from the well.

ABBREVIATIONS

bbl	barrels
bbl/d	barrels per day
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
mbbl	thousands of barrels
mboe	thousands of barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day

N A L O I L & G A S T R U S T

600, 550-6TH AVENUE SW
CALGARY, ALBERTA T2P 0S2
PHONE: (403) 294-3600
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WWW.NAL.CA

